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3 July 1957

# CURRENT INTELLIGENCE WEEKLY SUMMARY



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PART I

OF IMMEDIATE INTEREST

PRAVDA HITS VIOLATORS OF PARTY UNITY

On 3 July, Pravda carried two editorials on party unity giving stern warnings to potential and actual dissidents in the Soviet Communist Party. Although the articles boast of the party's unity, they hit out often at whoever would weaken that unity "no matter what post he occupies." Once decisions are reached, the articles stress, they must be implemented and argumentation must end, a basic Leninist principle. "The standard of discipline is the same for all members of the party, both the leaders and the rank and file. The party is not a debating society but is a militant, tightly organized political instrument."

The editorials refer back to Lenin's suppression of party factionalism in 1921 and assert that the party has ever since insisted on "monolithic unity." They recall that more recently the central committee has had to move against consumer goods advocates--a reference to the heavy versus light industry issue at the time of Malenkov's demotion--and against "muddle in the question of building socialism"--a point on which Molotov was censured.

The editorials' down-the-line defense of the policies developed by the Khrushchev-Bulganin government suggests that continued contention over some of these policies may have provoked the demand for tightened intraparty discipline. Although the so-called Leninist principle of party democracy, as opposed to the "cult of the individual," was encouraged at

and after the 20th party congress, the Soviet leadership now indicates it does not welcome, and is calling for an abrupt halt to, further "discussion" after a decision is made.

The timing of the article suggests that discussion of economic problems faced by the regime may have brought out criticism unpalatable to Khrushchev. Some aspects of the economic administrative reorganization which formally went into effect on 1 July have apparently undergone continued criticism, since the editorial states that "only a hopeless, politically blind person can fail to see the enormous progressive importance of these measures."

The final draft of the Sixth Five-Year Plan has not come out by mid-1957, as was called for by the December 1956 plenum of the central committee. The editorials' reference to the primacy of heavy industry suggests there has been continued discussion of the proportions to be allotted to light versus heavy industry.

Generally, this hard line by the official party newspaper indicates the regime has decided to clamp down on the dissidence and nonconformism which have appeared in many areas since the 20th party congress. Students and intellectuals, particularly writers, have gone much further than anticipated in testing the limits of permissible areas of discussion. Some--several Moscow writers and the editors of Problems of History--have already been disciplined.

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The first evidence of party members per se going too far came in April 1956, when several Communists in a Moscow thermonuclear institute were severely criticized. Since then there has been other evidence of dissension among the party rank and file, but this has been accompanied recently by indications of some tolera-

tion of "insignificant mistakes" by party members. There have been fewer cases of expulsions, and those expelled have allegedly not been subject to discrimination in employment. The Pravda editorials suggest that this tolerance is now to cease and party discipline and unity are to be paramount. (Concurred in by ORR)

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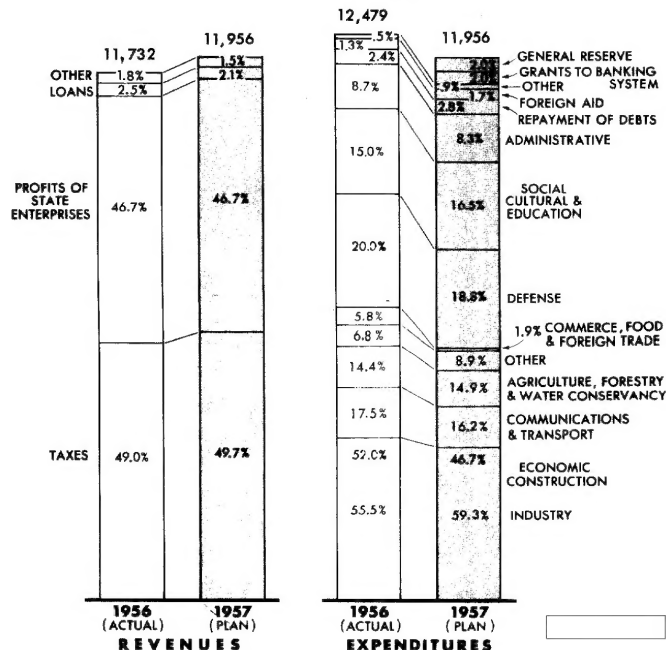
**COMMUNIST CHINA'S NATIONAL PEOPLE'S CONGRESS**

The National People's Congress--Communist China's version of the USSR's Supreme Soviet--in its first week has heard long reports on government operations by Premier Chou En-lai, on the 1957 budget by Finance Minister Li Hsien-nien and on the 1957 economic plan by planning chief Po I-po.

Peiping has made mistakes, especially in 1956. They tended, however, to play down these mistakes, and, as the finance minister argued, it is not necessary to stop eating just because "we

**CHINESE COMMUNIST BUDGET REVENUES AND EXPENDITURES**

( IN MILLIONS OF DOLLARS )



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The principal economic theme of these speeches has been to re-dedicate China to its drive toward quick industrialization and the consequent need for a relatively long period of economic austerity. Premier Chou admitted that the regime in the past failed to make sufficiently clear that it would take "tens of years" before modernized Chinese industry and agriculture would enable the Chinese people to lead a full and happy life.

The main speakers have all admitted that

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have choked on a fishbone." There has also been a tendency on the part of the speakers to overplay the scope and effect on agricultural production of the natural disasters of 1956, which Chou termed the "worst in several decades," possibly with the view of ensuring that the weather rather than the collectivization program would bear the blame for the disappointing 1956 harvest.

Plans and Policies for 1957

The value of industrial production is to rise by only 4.5 percent this year over last, that of agricultural production by 4.9 percent. These increases are considerably less than had been suggested by earlier reports from Peiping. The budgetary situation was described as "fully sound," despite the \$750,000,000 deficit which was incurred last year. Finance Minister Li said this deficit had been offset by using up the surpluses carried over from previous years, by overdrafts on the state bank and by issuing additional currency.

This is the first time since 1950 that the regime has found it necessary to print money to cover current spending, although Li claimed that a considerable portion of the new issue had already been retired.

Expenditures under the 1957 budget have been sliced, with defense spending down 10 per-

cent, administrative spending down 8 percent, and investment spending down 20 percent. Heavy industry retains its overwhelming priority within industrial spending, and the speeches thus far fail directly to confirm earlier official statements that light industry and agriculture would get a higher share of total investment.

Foreign Economic Relations

The loans which China has extended to neighboring countries--North Korea, North Vietnam, Cambodia and Nepal--will cost the regime \$207,000,000 this

**CHINESE COMMUNIST PRODUCTION**

MILLION METRIC TONS UNLESS OTHERWISE SPECIFIED

COMMODITY	1956 CLAIMED RESULTS	1957 (PLAN)	CLAIMED ADDITIONS TO CAPACITY DURING FIRST FYP (1953-1957)
COAL	106.0	117.27	45.28
ELECTRIC POWER BILLION KWH	16.2	18.86	10.47
PETROLEUM (CRUDE)	1.2	1.5	-
PIG IRON	4.8	5.55	3.09
STEEL	4.4	4.99	2.17
CEMENT	6.4	6.87	2.39
COTTON CLOTH BILLION METERS	5.86	5.0	1.41
RAW COTTON	1.46	1.5	-
GRAIN (EXCLUDING SOYBEANS)	182.5	191.0	-

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year as against \$164,000,000 last year. At the same time, Soviet loans to China will be reduced from \$47,000,000 to \$9,700,000, which is much less than the sum China will have to repay the USSR this year on earlier loans. The finance minister explained that China is now in a "better position" than

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in earlier years to rely on its own resources in carrying out its economic programs, which have been increasingly tailored to this end.

China's total foreign trade this year will be 9 percent under last year's figure of around \$4.27 billion. It was suggested that the pattern of the nation's trade be altered to bring about a gradual increase in exports of minerals and industrial products, de-emphasizing the export of agricultural products, and to bring about a gradual increase in the imports of certain raw materials and consumer goods and a reduction in machinery imports.

Isolation of "Rightists"

Chinese Communists comment on Chou En-lai's report to the National People's Congress in-

dicates that Peiping sees it, along with Mao's "secret" speech, as dealing a "lethal" blow to the views of "rightists." So far there has been only fragmentary evidence of Peiping's intentions toward these "rightists." Lung Yun, a leading target of Communist counter-criticism, has been elected to the congress presidium, and unofficial press reports state that Peiping has refused to accept the resignations of one or two other non-Communist cabinet officers.

At the same time, Chang Pochun and Lo Lung-chi are being increasingly singled out as the cause of all the "rightist" trouble and may bear the brunt of Communist retaliation. Peiping probably hopes by moderate punishment of these critics to salvage some part of its "hundred flowers" campaign.

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**MIDDLE EAST DEVELOPMENTS**

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and truck traffic between Syria and Saudi Arabia has been halted at the Saudi-Jordanian border. Syrian Foreign Ministry officials have given the impression that a formal Saudi note severing relations might be expected.

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Saud is probably reluctant to push the issue to a break, but Syrian leftists may try to force him to carry out his threat or lose face by backing down. Judging by their propaganda output, the leftists appear willing, even eager, to start an all-out attack on Saud. The Syrian leftists' desire to maintain international tensions may also be partly responsible for the continuing alert on the Israeli-Syrian border. A "final warning" by Israel to Syria last week appears to have been effective, since no serious incidents have been reported since 24 June.

**Saudi-Syrian Relations**

Relations between Syria and Saudi Arabia remain near the breaking point. King Saud told the American ambassador in Jidda last week that he has taken action to weaken Syrian leftists and that "in a few days" everything would become "clearer." The Saudi ambassador in Damascus has remained away from his post,

The movement of Syrians and Palestinian Arabs into and within Saudi Arabia now is subject to extraordinary restrictions. Syrian and Palestinian visa applicants are being carefully screened and Syrian pilgrims without visas are being turned back at the Saudi border.

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The security precautions are all the more necessary because of the entry of thousands of foreign Arabs into the kingdom during the annual month of the great pilgrimage, which began on 28 June.

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**Lebanese Election Results**

The final round in the Lebanese parliamentary elections ended on 30 June with the pro-Western Solh government having captured at least 46 of the 66 seats. The opposition front has 9 seats, and there are 11 independents who support the present cabinet's foreign policy. Foreign Minister Charles Malik, a prime target of leftist propaganda, defeated his Communist opponent by an overwhelming margin of 10,602 to 276. The government's victory does not necessarily mean that the Solh cabinet will have clear sailing after the new parliament convenes at least a month hence. Lebanese politics are notoriously based on family and religious ties rather than on secular ideological alignments.

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**SOVIET POSITION ON NUCLEAR TESTS ISSUE**

While Soviet delegate Zorin maneuvered last week to keep the London talks focused on the USSR's 14 June proposal for a two- to three-year suspension of nuclear tests under international control, a growing

volume of Soviet propaganda has elaborated on Foreign Minister Gromyko's charge of 25 June that the United States is using the negotiations "as a screen for a continuation and intensification of the arms race." The

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Soviet leaders apparently consider their proposal for test suspension their climactic move in this session of the subcommittee and may be willing to have the session close without a decision on this issue.

Gromyko timed his press conference attack on General Norstad's testimony before the Senate Foreign Relations Committee to coincide with the beginning of the American delegate's presentation of proposals for a partial agreement. The Soviet foreign minister charged that Norstad's statement was prompted by the improved prospects for a partial agreement brought about by the Soviet test suspension proposal. This thought was echoed by an increasingly harsh propaganda line censuring the United States for "dilatatory tactics" and efforts to prevent agreement "by complicating otherwise simple propositions."

The Soviet press claimed that the United Nations' report on Hungary was intended to disrupt the disarmament negotiations or force Soviet acceptance of Western conditions for a test suspension. Moscow cited President Eisenhower's 26 June press conference statement that American scientists wanted four or five years to develop a "clean bomb" as evidence of his opposition to a test suspension. A Moscow broadcast in French on 26 June charged that "this ignoble farce of washing the hydrogen bomb is obviously aimed at undermining the campaign" for a cessation of nuclear tests.

Soviet delegate Zorin's main efforts since he introduced the test suspension proposal have been aimed at blocking any Western moves to evade a show-

down on this issue. His objective apparently is to present the issue as one of principle and to avoid prolonged and confused debate on controls and procedure in the realization that an impasse on the question of principle would be much more effective for propaganda exploitation than a breakoff on the complex questions of controls and location of inspection posts. He told British foreign secretary Lloyd on 19 June that the international commission which, under the Soviet plan, is to enforce the test suspension, would decide such questions as the location of inspection posts and their rights of communications and movement.

Zorin has repeatedly criticized the Western delegates for advancing "contrived conditions" designed to "raise obstacles" to ending the nuclear arms race. He has informed the American, British and French delegates that, in the Soviet view, the cessation of the production of nuclear weapons must be linked to a prohibition and elimination of nuclear weapons and that the Western position making a test suspension contingent on Soviet agreement to halt production of weapons is completely unacceptable.

Zorin has also continued to insist on an unconditional renunciation of the use of nuclear weapons. When the American delegate suggested on 27 June that the question of use should be omitted from a partial agreement, Zorin replied that this was undesirable and impossible. However, he has informed the American and French delegates that a simple declaration banning use of nuclear weapons would be preferable to including such a ban in a formal treaty on a test suspension.

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The USSR's interest in keeping the negotiations centered on the test suspension issue was also apparent in Zorin's refusal to make any definitive response until the American delegate completes his presentation of his proposals to the subcommittee. He rejected an American suggestion to establish a working group on reduction of armed forces on

the ground that it would not serve any purpose until the United States had answered the USSR's various proposals.

Moscow has contrived to develop a negotiating position in which it will benefit from either a modest first-step agreement or a deadlock on the test suspension issue.

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**FRANCE MAY INSIST ON BECOMING NUCLEAR POWER**

Unless it can get an agreement with the United States which will save France the cost of nuclear research and development, the French government may announce that it will begin making nuclear weapons. French public opinion would probably rally to either course of action.

Premier Bourges-Maunoury reportedly maintains that France should make and test its own bombs, and speculation that France is having second thoughts about suspending nuclear tests increased when French disarmament delegate Jules Moch flew from London for his first meeting with the new French cabinet.

field of nuclear weapons development and production." Morice added that "political and psychological" as well as purely military considerations were involved in the development of a national French nuclear capability.

The claim that the new government has adopted a more forceful policy may be a bargaining move, however. Mollet, whose Socialist Party is a key element of the present coalition, is reportedly willing to accept a "negotiated compromise," perhaps permitting France to "participate" in American atomic developments.

They may now be concentrating on the possibility of a preferential status, giving France complete control over an American-supplied nuclear arsenal.

Defense Minister Andre Morice told General Norstad on 25 June that he was concerned over the UN Disarmament Subcommittee's actions, "and in particular the American proposals for a moratorium on nuclear tests." He feared they would "cause particular difficulties for France, in view of the new French government's policy of moving forward rapidly in the

Opposition to a national nuclear weapons program is decreasing in France. According to a USIA public opinion survey taken in May of trends in Western defense issues, nearly a third of the French public would approve of French nuclear armament, and slightly more than a third would oppose. However, among the more articulate and politically influential levels

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of French society, there now is a clear preponderance (39 percent) of opinion favoring nuclear armaments over that opposing--29 percent.

Furthermore, results of a recent survey of the French and German press by a reputable

Paris polling group on the question of whether atomic weapons diminish or increase the risk of war indicate that 57 percent of the press in both countries inclines to the view that the risk of war does not depend on the existence of atomic weapons.

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## PART II

NOTES AND COMMENTS

## CHANGES IN BRITAIN'S MIDDLE EAST DEFENSE PLANNING

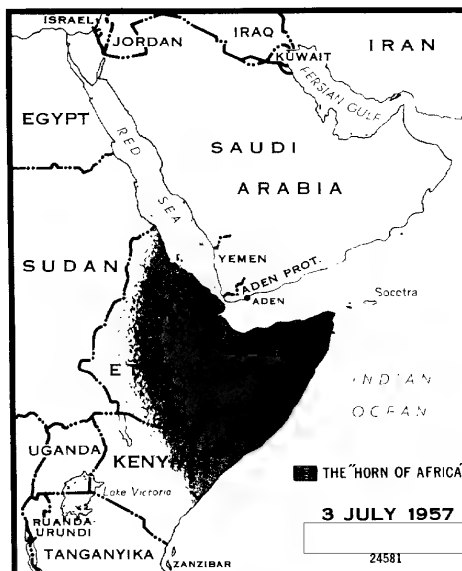
The pattern of Britain's new defense setup in the Middle East should begin to emerge shortly when Defense Minister Sandys announces future base and command plans for that area. The emphasis in British planning is shifting from the Mediterranean to the Arabian peninsula area. The new plans presumably will take into account views of other Commonwealth members as expressed in the current prime ministers' conference.

The intention of cutting land, sea and air forces and concentrating on small but highly mobile units for military action was outlined in the defense white paper last April. Although these cuts affect British forces all over the world, speculation has focused on future plans for the Middle East. This area continues vital to Britain's interests, but political uncertainties, particularly in Cyprus, make long-range decisions difficult.

London sees its main responsibilities in the area as support of the NATO and Baghdad-pact alliances and defense of its oil interests. Cyprus is considered of strategic value chiefly as a potential nuclear air base and early warning location in support of the right flank of NATO and the "gravely inadequate" forces available to the Baghdad pact. As long as the Cyprus political situation permits, the British would like to retain the air bases, the useful military communications network, and expensive headquarters installations, some of which are still under construction.

Military support of the two alliances will stress bomber squadrons with nuclear potential rather than land forces.

With naval responsibilities in the Mediterranean now assumed by the American Sixth Fleet, Jordanian treaty obligations ended, and a progressive reduction of ground forces in Libya in prospect, Britain will shift emphasis to the Arabian peninsula to defend Aden Colony and Protectorate



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and the territories on the Persian Gulf for which it is responsible.

A War Office plan under consideration for a readjustment in the Middle East command structure envisages the Middle East Land Force (MELF) headquarters remaining on Cyprus, but would establish a separate command consisting of ground

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forces in Aden, the Persian Gulf and East Africa which would report directly to the War Office, with headquarters either in Kenya or in Aden. Kenya has better facilities but Aden is nearer the area covered by the Baghdad pact. If earlier plans for stationing a mobile strategic reserve in East Africa materialize, this would also come under the new command.

Under the announced plan of reorganizing naval strength into small carrier task groups, the Far East and East Indies stations will be combined in such a task force to be stationed in the Indian Ocean, possibly based at Mombasa. Despite the lack of mention of naval plans for the Mediterranean, there may be some drastic reductions there.

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**CYPRUS**

Official Turkish displeasure with the first moves of NATO secretary general Spaak toward mediating the Cyprus dispute suggests increasing bitterness between Turkey and Greece over Cyprus and the inevitability of a showdown in this year's UN General Assembly. The Turkish government complains that Spaak's views are "badly conceived and in effect present only a Greek solution of the problem." A memo Spaak wrote and circulated to the interested parties ruled out both self-determination and partition and suggested that some formula for guaranteed independence was the most promising alternative. The Turks continue to insist that only the partition of Cyprus is acceptable to them and state that any proposal for Cypriot independence will be flatly rejected.

Turkish prime minister Menderes has put off seeing Spaak in the near future. Menderes' evident intention of delaying any further Spaak initiative may stem from fear that the probably favorable reception of Spaak's views elsewhere would isolate Turkey on the issue. In view of the likelihood that Turkish national elections will be held this fall, such a development could

seriously embarrass Menderes' Democratic Party.

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**FRENCH-TUNISIAN RELATIONS**

Relations between France and Tunisia are likely to improve as a result of a decision taken in Paris last week to

withdraw a substantial number of French troops from Tunisia. The Bourghiba government now may adopt stronger measures

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against Algerian activities in Tunisia, and French credits to Tunis may be resumed soon.

Paris plans to shift a division of 10,000 to 15,000 troops to the Algerian side of the frontier and to regroup the remainder of its 25,000 ground force and 10,000 naval and air force personnel at the Bizerte base and five other posts. The American embassy in Tunis believes such a withdrawal would reduce the danger of further clashes between French troops and armed Tunisians.

The withdrawal falls short of Premier Bourghiba's demand that all French forces be pulled back to the Bizerte area. Nevertheless, Bourghiba may feel his position sufficiently strengthened to be willing to take some measures against undesired activities by Algerian militants in Tunisia. He is reported to have assured the French that he will do "much more" to preserve Tunisia's neutrality vis-a-vis Algeria once the "occupation" ends.

The American embassy in Tunis cites growing disenchantment in some Tunisian circles with the Algerian rebels as a result of the Melouza massacre and the rebels' rebuff of recent efforts by Bourghiba to mediate the Algerian conflict. The Tunisian government can be expected, however, to reflect continuing national sympathy

for the "Algerian brothers" in public utterances and will almost certainly continue to facilitate the flow of arms to the rebels. The government and populace will oppose any attempts by the French military operating in Algeria to pursue rebel bands in Tunisia. The French have informed Bourghiba that such action will be taken if rebels seeking refuge in Tunisia are not disarmed.

French ambassador Gorse in Tunis anticipates that French credits suspended in late May because of Tunisian support of the Algerian rebellion are likely to be resumed in the near future. He thinks preliminary talks on this subject will start soon and credits will be extended following the meeting of the franc zone committee scheduled for mid-July in Paris.

Gorse further intimates that if the present detente continues for four or five weeks, French arms and equipment sufficient for one or two battalions of the ill-equipped Tunisian army would be forthcoming "very rapidly." The Tunisians, however, are virtually certain to continue efforts to terminate their complete dependence on France for military supplies. The Tunisian interior minister recently renewed in more forceful terms earlier appeals to American officials for such assistance.

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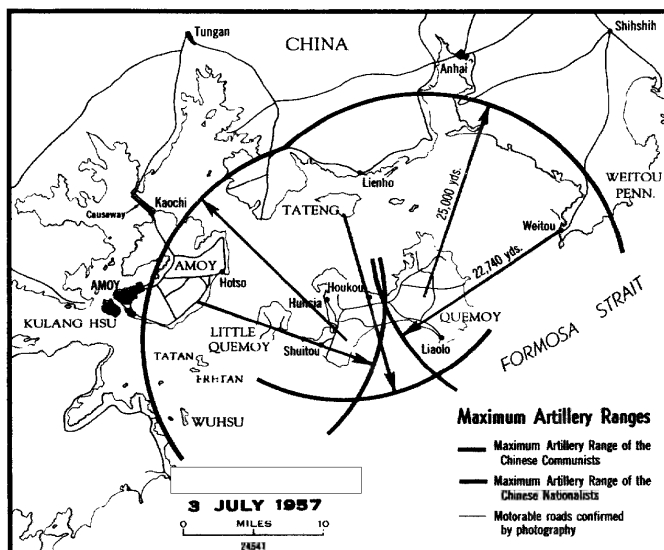
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**TENSION EASES IN QUEMOY AREA**

Tension has eased in the Quemoy area since 24 June, when Chinese Communist guns fired one of the heaviest barrages in two years against Chinese Nationalist positions on Little Quemoy Island. Firing was resumed on 27 June on a much reduced scale and since then the Nationalists have not fired at all and the Communists have

at fishing boats, merchant ships, and villages, it was apparently successful.

About half of the fire on 24 June apparently was directed at the Nationalist command post on Little Quemoy. Fire directed at Nationalist medium artillery positions was accurate, suggesting that the Communists have the locations well spotted. Casualties reportedly totaled 64 military personnel and 55 civilians.



The Communists could take the two lesser islands--Tatan and Erhtan--of the Quemoy group with little difficulty as they are garrisoned by only about 1,100 lightly armed Nationalist troops. They could also easily take Wuchiu, a small island group north of the Quemoy group, garrisoned by 550 Nationalist guerrillas. The military value of these islands would be practically nil, but the Communists may reason that the psychological effect of their conquest would be worth the cost. There have been no reports of Communist preparations for such a venture, however.

fired only a few rounds, most of them leaflet shells.

Additional firing exchanges can be expected if foreign shipping continues to attempt to enter Amoy.

American officials in Taipei comment that if the heavy Communist firing of 24 June was intended to discourage indiscriminate Nationalist firing

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**SOVIET BLOC ECONOMIC ORGANIZATION MEETS**

At the first meeting of the Council for Mutual Economic Assistance (CEMA) since the Hungarian and Polish uprisings, the Soviet Union moved to restore a measure of balance to its economic integration schemes in the Soviet bloc. High-level representatives from all the European Satellites and the USSR, plus observers from Yugoslavia, North Korea and Communist China, stressed the problems challenging the economic unity of the Soviet bloc. This probably was in response to the Poles' having asserted their independent, more "realistic" course and the Hungarian economy's having become an increasing liability to the bloc.

Although the council, meeting in Warsaw from 18 to 22 June, considered problems such as the necessity of co-ordinating national economic plans and of expanding fuel and power facilities, the most important result appears to have been the signing of a multilateral clearing agreement to promote trade.

The fact that the meeting was held in Warsaw and was chaired by a Pole emphasizes the efforts the Soviet Union has made to tolerate Poland's independent position.

The last plenary session of CEMA was held in May 1956,

at which time a program of specialized production for 1957-61 was announced, reflecting the Moscow-directed drive for economic integration which had been developing since CEMA was formed in 1949. But an increasing ferment of national independence among the Satellites, culminating in the Polish and Hungarian uprisings last fall, together with economic plans which were more and more difficult to fulfill, disrupted Soviet plans for an economically integrated and interdependent Eastern Europe.

Since the uprisings, the Soviet Union has negotiated bilateral agreements in its dealings with the European Satellites. The bilateral agreements emphasize the orientation of a Satellite economy toward Moscow with plans for extended co-ordination with the USSR on the granting of technical and economic aid by Moscow. With bilateral agreements with all its Satellites signed, Moscow apparently believed that it could again push its plans for economic integration.

The CEMA session "reaffirmed the principles of multilateral economic co-operation," and "found it expedient to co-ordinate longer range plans covering 10 to 15 years." It approved recommendations to work out measures to improve supplies to the various countries of such basic commodities as coal, steel, petroleum and coke. Reports were given on steps to improve transportation

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facilities. Although it considered the above points, there is no indication that the conference came to any decision on them. The one agreement which was announced as signed was a

multilateral financial clearing agreement which will provide helpful flexibility in intrabloc trade and dilute Soviet leverage in bilateral negotiations.

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**SOVIET INDUSTRIAL REORGANIZATION**

The Councils of National Economy, which will direct the industries of the 105 economic-administrative areas into which the Soviet Union has been divided, were formed by the 1 July deadline and some have already begun to work. Staffing of the councils--which range in size 770 persons in Estonia to 3,000 for the Moscow region--was virtually completed by last week, and some of them had already begun to function. Most personnel from abolished USSR and republic ministries have been reassigned to the regional councils.

Former USSR ministers and deputy ministers have been earmarked for top positions in economic councils in the RSFSR, the Ukraine and Kazakhstan, but almost no personnel from the center have been assigned to leading posts in the smaller republics, each of which constitutes a single economic-administrative area.

In the RSFSR, where with three exceptions each oblast has its own economic council, top positions are being carefully divided between former USSR ministerial officials and local functionaries. In Khabarovsk Krai, for example,

the chairman is a former USSR deputy minister, but his two deputies are local officials. Six of the ten directorates are headed by local functionaries, while personnel from the center head the remaining four.

According to N. K. Baibakov, former USSR planning boss, one major problem of decentralization is the reluctance of former USSR ministers to leave Moscow for the provinces. He stated, however, that this is being solved by "increasing perquisites," the nature of which he did not divulge.

Manifestations of "localist tendencies" have been anticipated by the regime, which has warned against practices such as withholding supplies in one area which have been designated for export to another area. The central press has described severe punishments of local bodies which have reneged on contractual obligations to deliver materials in order to create a backlog for local use. Such practices may prove more prevalent in the smaller republics, where few, if any, officials from Moscow have been assigned.

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**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY****3 July 1957****SOVIET AVIATION DEVELOPMENTS**

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Moscow newspapers on 21 June announced the cancellation of the annual Air Force Day air show which had been scheduled for 30 June at Tushino airfield. Although the reason given was "bad weather at the present time and unfavorable forecasts," it seems more likely that the move was prompted by operational difficulties.

Prior to cancellation, the Soviet press had given prominent publicity to planning for the air show. It was reportedly to have been more than an hour longer than previous shows and the number of events increased from 19 to 30. Several nonbloc nations, including Great Britain, Canada, France, Iran and India, had been invited to send delegations to the show.

Excellent weather was reported in Moscow on 30 June. Bad weather prevented rehearsals for the show after 18 June, however, and long-range weather forecasts for the area apparently had been unfavorable. While bad weather in previous years has led to postponements rather than cancellation of the show, the risk of a poor performance because of insufficient practice may have influenced the decision to cancel.

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**HUNGARIAN PARTY CONFERENCE ENDORSES HARD LINE**

At its first national conference held on 27-29 June, the Hungarian Socialist Workers (Communist) Party endorsed the hard political line followed by party leader Janos Kadar and re-elected the members of his clique on the politburo and secretariat. Although the final resolution of the conference underwrote a centrist position, its general tenor presages stern measures against Nagy-oriented "revisionists" and tacit support for neo-Stalinists.

The powerful neo-Stalinist group in the faction-ridden party greatly improved their position by the election of several former high-level Stalinists--including onetime ideological czar Jozsef Revai--to the central committee, which now numbers 53 full members and ten alternates. Middle-of-the-road elements will interpret his election as a victory for dogmatism and a threat to their position.

With two exceptions--Antal Apro and Karoly Kiss--the politburo and secretariat are staffed by Kadar's close associates. His henchman Miklos Somogyi will head the new central control commission which has final jurisdiction over the discipline of party members. Kadar's control of the politburo may also be strengthened by the election of Jenő Fock as full member and, as alternates, two new men--Rezso Nemes, chairman of the official party newspaper's editorial board, and youth leader Zoltan Komocsin.

In his major addresses to the conference, Kadar showed his awareness of the party's total lack of popular support when he appealed for an end to "dogmatic procedures" and for

closer contact with the populace, particularly with industrial workers. Only his recognition of economic realities--for example, his pledge that agricultural collectivization will be soft-pedaled for the next two or three years--is likely to win any degree of popular approval. This, however, may be largely nullified by his appeal for support for the hated State Security Authority and his rejection of the workers' councils as counterrevolutionary in origin.

The final resolution represented an uneasy compromise between the party factions. It endorsed an unyielding line toward "counterrevolutionaries," condemned Imre Nagy and his adherents in language closer to Revai's position than Kadar's, and underwrote the current harsh line in cultural matters. It stated that the proportion of intellectuals among the party's 345,000 members has fallen to 6.9 percent--possibly an all-time low.

The resolution made a strong demand for party unity and empowered the central committee to dissolve any party organizations that turn against the party's policy. But it sustained Kadar's moderate economic policies--including the deferment of collectivization, although without a specific time limitation--and supported Kadar in sharply condemning "dogmatic"--i.e., Stalinist--procedures toward the people. Finally, it adopted an ambiguous position on the issue of workers' councils in an effort to avoid unfavorable repercussions from industrial workers.

Neo-Stalinists will probably be encouraged by their apparent victory to maneuver for

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a greater voice in the politburo and secretariat and probably will prepare for an eventual assault on Kadar's soft-line agricultural policies. The final determination of policies in Hungary will be made, however, by the Kremlin, which to date has not found an alternative to Kadar as party leader.

Kadar disclosed the hostile attitude toward the Soviet Union held even by party members when he declared that the party's policy of "brotherly friendship" with the USSR "must be represented courageously and without shame."

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**RUSSIANS CONTINUE HARASSMENT OF ALLIED BERLIN TRAVEL**

Since last November, the USSR has been resorting to a new type of harassment of Allied surface travel to Berlin designed to establish greater Soviet control over highway and rail traffic to the city. In an attempt to eliminate leave travel to Berlin by Allied personnel not stationed there, Soviet authorities have sporadically delayed or refused to clear individuals for travel to Berlin, using charges of improper documentation. Since few British or French nationals take leave in Berlin, Soviet interference has affected American travelers primarily.

Soviet officials deny that they are challenging the Allies' right of access to Berlin but insist that Allied officials have the right to issue Berlin travel orders only to persons going there on temporary duty or on permanent change of station. They also demand that persons have documentary evidence of the nature of their travel, including the traveler's occupation and the purpose of the trip, information which has never been included in Russian versions of Berlin travel orders.

The chances of Moscow's backing down in the matter of leave travel to Berlin appear slight. Allied officials in

Germany believe that before long the Russians may notify the Allies that they have been given sufficient time to revise their documentation practices and that unless acceptable procedures are instituted by a certain date, travelers will not be permitted to proceed to Berlin by rail or autobahn. Thus far, the Russians have never removed a passenger from an Allied military train and only once have they turned back a train, although they have several times refused clearance for autobahn users and have delayed trains.

The Russians ascribe most of the incidents which have occurred since last November to improper, incomplete and confusing documentation procedures. They maintain that much confusion and difficulty could be eliminated if the Allies adopted uniform documents and procedures along the lines recently suggested by the Russians.

At a meeting in Berlin on 1 June, Allied officials discussed some proposed revisions in documentation with Colonel Kotsiuba, Soviet deputy commandant in Berlin, and reached superficial agreement on a few minor points at issue. Kotsiuba proposed some additional changes and indicated that any new forms should be sent to him

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for study before being put into effect. If they were acceptable in principle, he said, he would then issue the necessary orders to checkpoint officers. Allied officials made it clear that the samples had been presented for Kotsiuba's information, not his approval.

British authorities in Germany believe there is a possibility the Russians are now seeking a face-saving formula which would enable them to withdraw gracefully from their extreme position taken last November that only they could decide who has the right to travel to Berlin.

Earlier Soviet suggestions that travelers accept East German documentation, and their demands that travel orders appear in German as well as Russian indicate an intention eventually to transfer to the East German authority over rail and autobahn checkpoints and responsibility for processing Allied travel documents. The American mission in Berlin believes that a desire to satisfy German pressure is the principal motive for the Soviet harassment. The Germans may be impatient for further Soviet compliance with past agreements to give East Germany greater control over travelers in its territory.

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**BRAZILIAN COMMUNIST DISSENSION**

Dissension among the 50,000-60,000 members of the Brazilian Communist Party (PCB)--the most important in Latin America despite its illegal status--threatens the party's role as Moscow's chief interpreter in South America.

roughly coincided with the bitter party attacks on the Soviet action in Hungary.

In this controversial atmosphere, the example of Communist China--which impressed many of the Latin American delegates to the Chinese Communist 8th party congress in September as providing a better model for agrarian Latin America than does the more industrialized USSR--apparently fed the growing "liberal" agitation in the PCB instead of providing a useful distraction from Hungary and other divisive issues, as it did in other Latin American parties.

Brazil's intraparty strife, developing over the past year, caused party treasurer Agildo Barata to defect publicly in May and set up a "national" Communist movement. Agitation within the party over the Soviet party's 20th congress forced the Brazilian leadership to invite free discussion in the party press, but so belatedly that the first "personality cult" attacks on the PCB's authoritarian first secretary, Luiz Carlos Prestes,

In late November, Prestes, apparently fearful of losing control, forced the central committee to reimpose censorship and publicly endorse the basic infallibility of Moscow. In line with an apparently concerted effort by Moscow and the Prestes old guard to intimidate the dissidents, 18 PCB officials who had been studying

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in the USSR were ordered in December to return to Brazil immediately in order to support Prestes. [REDACTED]

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Barata's defection has reportedly frightened a majority of the central committee into greater unity behind the Prestes old guard but has revealed unexpectedly strong heresies in other segments of the party. This continuing dissension in the intermediate and lower levels is probably regarded as particularly serious since morale problems of the past year are believed to have already reduced PCB membership by 10 to 15 percent.

While the Soviet party has avoided in Latin America the kind of direct intervention in foreign party affairs reportedly now intended in Brazil, it may feel the Brazilian situation calls for special attention and possibly for a reassessment of the PCB's previous key role in South America. [REDACTED]

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**CUBAN GOVERNMENT'S POSITION CONTINUES TO DETERIORATE**

Cuban president Fulgencio Batista's regime continues to lose prestige and support, not only in the opposition stronghold of Oriente Province, but also in Havana and throughout the island. Opposition activity and terrorism have increased during the past few weeks, and numerous reports of future planned activities suggest that the situation will continue to deteriorate.

The government, cognizant of its shaky position, is attempting to neutralize opposition gains by establishing military administrative control over areas of antigovernment activity and by propaganda designed to minimize the seriousness of the situation. The offensive has met with little success, however, and has even contributed

to rising resentment against the government and an accompanying loss of prestige.

The government's trump card was to have been a mass rally in Santiago de Cuba on 30 June. Members of the pro-government coalition, led by Rolando Masferrer of the Radical Union Party, organized a demonstration designed to attract support from the largely anti-Batista population of Oriente Province, stronghold of rebel leader Fidel Castro Ruz. Impressive advance publicity, importing of paid demonstrators and government supporters, and strong military control over the city failed to produce the desired "spontaneous support" for the rally, and residents made good their threat to boycott the meeting.

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Only some 5,000 of the anticipated 70,000 to 100,000 demonstrators attended, and response to pro-Batista orators was apathetic. Subsequent increased terrorism throughout the island and a clash between government troops and Castro's rebels underscored the government's failure to gain from its grandiose project.

The government's failure on 30 June primarily resulted from an unfortunate choice in location since the percentage

of anti-Batista elements in Oriente has been estimated as high as 85 to 95 percent. Control over communications media, continued support from the armed forces, and prosperous economic conditions augur well for Batista's continuance in office. Continued loss of prestige and increased revolutionary and terroristic activities such as those sparked by the 30 June demonstration, however, suggest that disaffection with the present regime is on the increase.

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**JAPANESE SEE MODERATE SUCCESS IN KISHI VISIT TO US**

The initially cool Japanese press reaction to Prime Minister Kishi's talks in Washington, which one leading newspaper even characterized as "bungling diplomacy," has given way to a more favorable response and a belief that the talks have opened the way for the improvement of Japanese-American relations.

The Japanese have been encouraged by the announcement of the early withdrawal of American ground forces and by the agreement to establish a joint committee to study problems arising from the security treaty. They are, however, suspicious about the possibility of secret agreements on the entry of nuclear weapons into Japan, an accelerated build-up of Japan's defense forces, and continued observance of the China trade embargo. The Socialists have seized on these issues, as well as on Kishi's inability to obtain modification of the US position on the Ryukyu and Bonin Islands, to attack him for the "failure" of his mission.

Kishi, on his return to Tokyo, sought to allay Japanese suspicions about a secret agree-

ment on nuclear weapons. He has implied that he received at least tacit American approval for increasing Japanese trade with Communist China, short of militarily strategic materials.

The Japanese are coming to believe that Kishi achieved more than the joint communiqué conveyed, but they do not regard anything as settled. Japan probably now will seek specific results from the broad understandings, and indications are that, as a first step, the Japanese will endeavor to have the projected joint committee determine the disposition of American troops and equipment in Japan and discuss a time limit for the security treaty itself.

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**INDONESIA**

Non-Communist Indonesian political leaders are greatly disturbed over the Communist Party's 40-percent gain in votes in the Djakarta municipal elections of 22 June. The National Party, which won a plurality in the 1955 national elections, is particularly anxious over the effect on its own political future of President Sukarno's open encouragement of the Communists. National Party leaders have expressed hope that Sukarno is similarly worried by Communist gains and that his 4 July speech at the National Party's 30th anniversary celebration will reflect an awareness of the Communist threat and renewed support for the Nationalists.

Sukarno, however, has announced that despite earlier plans to the contrary, he will install his predominantly leftist national advisory council on 12 July whether or not all 45 seats are filled. At present six seats are vacant, and two appointees have not decided whether to accept council seats.

The declaration of an autonomous province in North Celebes by Lt. Col. Sumual, the former army commander for East Indonesia, has been confirmed by Minister of Interior Sanusi in Djakarta. Sanusi hastily explained, however, that the central government had planned to take similar action anyway and that the local move is merely a premature development which will be formalized at a later date. During his second visit to East Indonesia in the current crisis, Chief of Staff Nasution did not visit Sumual or travel to North Celebes. He did, however, install as commander over another of the four reorganized military commands in the area the officer who was already in charge. This leaves two regional commands to be activated.

Former vice president Hatta, during a visit to Sumatra, publicly insisted on 25 July that the greatest possible autonomy should be granted at the local level. He reiterated his belief, however, that the autonomous movements are not evidence of separatist tendencies.

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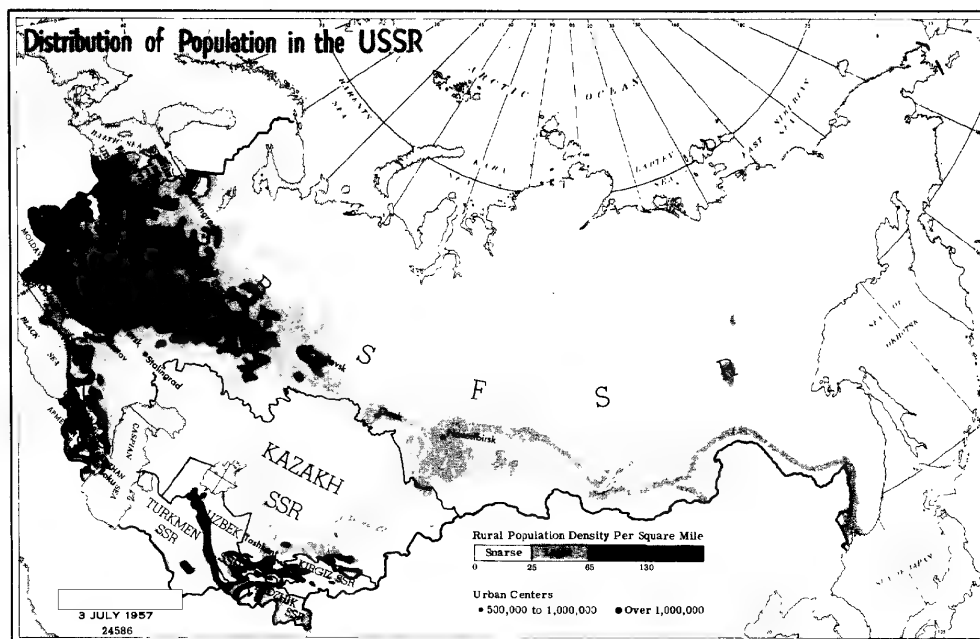
**SOVIET POPULATION TRENDS**

Demographic data released in the last year by the Soviet government place the total population of the USSR at 200,200,000--considerably lower than previous Western estimates. Calculations based on these figures show that the gap between the size of the Soviet population and that of the United States will increase over the next 20 years. However, the composition of the Soviet population is such that the growth in the working-age group and the levels of the prime male military-age group will be less satisfactory from the Soviet standpoint than formerly. The next Soviet census is scheduled for 1959.

The low birth rate during World War II and the early post-

war years means smaller additions to the working-age group and hence to the total labor force during the Sixth and Seventh Five-Year Plans (1956-1965). The average annual increase in the labor forces is expected to drop from 1,600,000 workers per year during the 1951-1955 period to 1,300,000 between 1956 and 1960, and to only 900,000 new workers per year during the 1961-1965 period. The pinch will be especially tight between 1958 and 1963. After 1965 the situation will improve significantly.

These limitations on manpower and the relatively low increase in industrial labor productivity in 1956--falling far short of the annual average

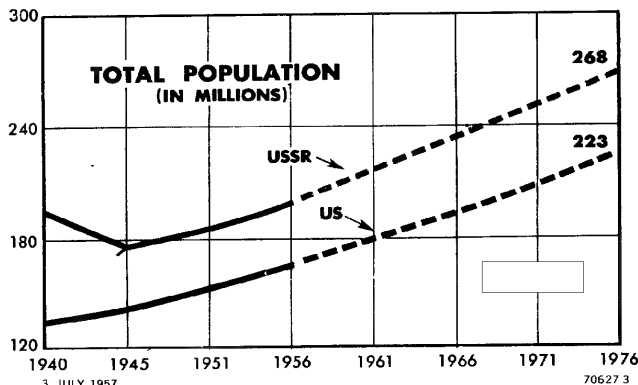
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needed to fulfill five-year plan goals --are undoubtedly important factors in the reorganization of industrial management now under way.

In the case of males of prime military age (20-29), the level will rise until 1960, drop from 19,100,000 in 1960 to 16,900,000 in 1970, then climb back up to 20,100,000 in 1975. By comparison, the American potential during this period shows a steady increase. Hence, whereas the USSR exceeded the United States by 7,400,000 military-age males in 1955, by 1975 it will exceed the United States by only 1,500,000. The size of

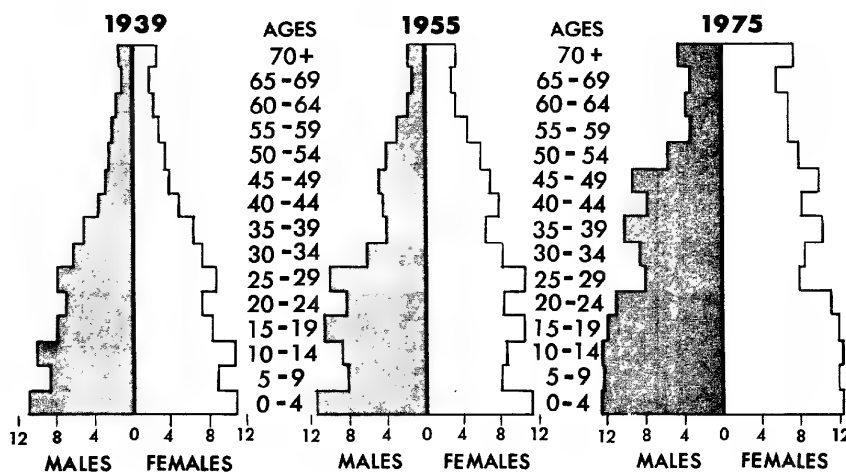


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this age group, however, exceeds the peacetime armed forces to such an extent that fluctuations become important only with full mobilization.

The present Soviet forced labor population, on the basis

### USSR: POPULATION BY AGE AND SEX ( IN MILLIONS )



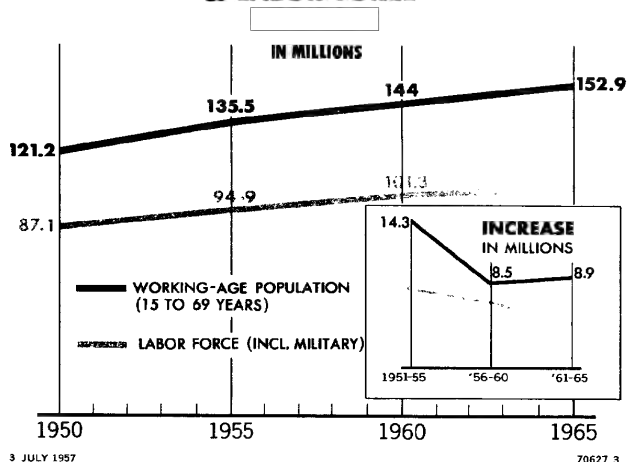
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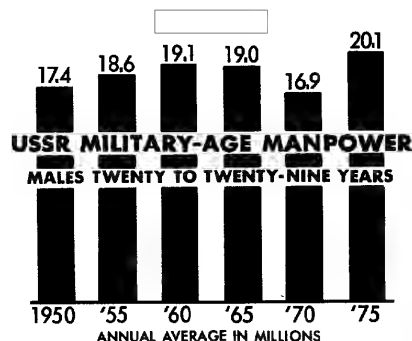
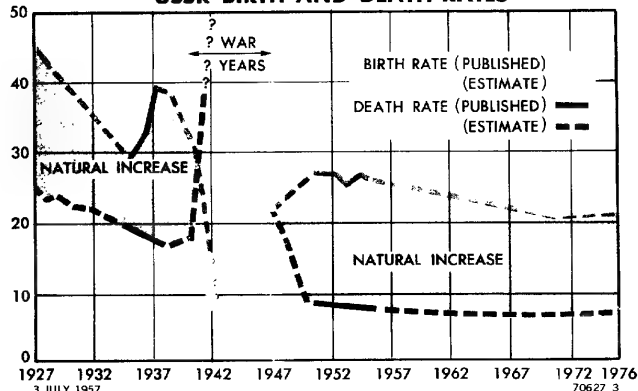
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**USSR WORKING-AGE POPULATION & LABOR FORCE**

laborers. A figure lower than 3,000,000 would be consistent with the statement of USSR Deputy Procurator General Kudryavtsev in May that the Soviet prison population is only 30 percent as large as it was prior to Stalin's death in 1953.

Soviet war losses, including the war-induced birth deficit, were evidently much higher than previously estimated, totaling

of the Soviet population figure of 200,200,000 in April 1956, is evidently considerably less than 3,000,000. A figure higher than this would be inconsistent with the rather close correlation between the estimated population over 18 years of age and the figure on voters (18 years and over) which has been published by the USSR from 1950-1955. Most of the difference between the total population over 18 and the voter population is believed to consist of forced

**USSR BIRTH AND DEATH RATES**

almost 40,000,000. After 1940 and probably until as late as 1947, the USSR experienced a natural decrease in population--more deaths than births per 1,000 population. The immediate prewar rate of natural increase was not approached before 1949.

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## SOVIET UNION INTENSIFIES ORIENTAL AND AFRICAN STUDIES

The USSR has reorganized its oriental studies research faculties and redirected the efforts of its orientologists toward more effective immediate support for the current Soviet diplomatic offensive in Asia and Africa.

In May 1956, "Doctor of Historical Sciences" B. G. Gafurov, full member of the party central committee, formerly first secretary of the central committee of the Tadzhik SSR, was selected to head the Oriental Institute of the Academy of Sciences, the summit of Soviet oriental studies. In September, the institute was reorganized and expanded. Twelve new units, among them sections on India, the countries of the Near and Middle East, and Arab East Africa, were created and plans drafted for intensified study of Chinese history and culture. A special printing press section for oriental languages is being organized at the institute.

Scholars from Asian and African countries are to be invited to work at the institute for lengthy periods, and in turn Soviet orientologists will be sent into the field to improve their qualifications. Eastern studies library collections are concentrated in Moscow and in Leningrad. Attempts are being made to improve the acquisition of research materials and make them more easily available to scholars. Contacts with bloc orientologists have increased.

Major tasks of the Oriental Institute, as outlined by its director, include study of the birth, formation, and development of the new democratic states in the East; the peculiarities of economic developments in the peoples democracies in Asia; the crisis and deterioration of the colonial system; and the publication of monographs on

the newly independent states of Africa and Asia and of studies on the history of Egyptian, Persian, Afghan and Indian literature.

On 1 March, Komsomolskaya Pravda announced that a new "scholarly and sociopolitical magazine" to be called Sovremenny Vostok (The Orient Today) would be issued by the institute to supplement its scholarly journal Sovetskoye Vostokovedeniye (Soviet Eastern Studies) which first appeared in April 1955. The new magazine "will report achievements in Soviet and non-Soviet orientology and systematically review works appearing in the Soviet Union and abroad."

This magazine will be issued first in Russian in an edition of 50,000 directed to "scholars, propagandists, the party and Soviet activists, and students and graduate students" concerned with the Orient. Later it is to be published also in Arabic, Indonesian, Hindi and other Eastern languages. The first issue was devoted to the second anniversary of the Bandung conference. Several other new journals in the fields of history, world economics, and international relations are scheduled to appear this summer.

Ideological Content

Soviet oriental studies have been criticized by the party as having been too apolitical and for lagging behind the needs of policy. The most thorough criticism appeared in the party journal Kommunist in May 1955, a few weeks after the Bandung conference. As an interested observer of the Bandung proceedings, the USSR probably noted that its views of the national liberation movements as represented in Soviet literature reflected the Stalinist era and were outdated and

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out of harmony with the Soviet friendliness campaign in Asia and Africa.

Following Bandung, treatment of Indian leaders and of the Indian national movement was the first to be de-Stalinized. Soviet literature on India had been ill-informed and bookish, as the party itself affirmed. Indian art and literature have received much attention, especially since the visit of Nehru to the USSR in June 1955. The roles of Gandhi, Nehru and the Indian national liberation movement in general have been thoroughly revised.

African studies especially lagged behind the needs of diplomacy; African specialists were few and dispersed. Komunist charged that as late as May 1955 only the Institute of Ethnography studied African countries, and that the Institute of Oriental Studies concerned itself only with Egypt of the African countries. The USSR has since made important efforts to make up for lost time, publishing monographs and journal articles on all parts of Africa and studies on many of the African languages.

Special party criticism has been leveled at Soviet orientologists for failing to give proper attention to the implications of the foundation and development of the Chinese Peoples Republic and for improperly evaluating the role of the national bourgeoisie in anti-imperialist movements.

The Soviets also are conducting a broad campaign to flatter each nationality with the high quality and peculiar brilliance of its culture. They have published collected works of Iranian and Pushtu poets, illustrated works on the national art of India, and dictionaries of minor dialects. A report of the Foreign Languages Publishing House in Moscow on Soviet books

for export to be published in 1957 shows a marked increase in the languages of the Indian subcontinent with 76 titles in Bengali, Hindi and Urdu representing one eighth of the 592 books to be published.

To reinforce its program in these fields, the USSR has recruited nationals from the oriental countries to teach in the USSR and has encouraged others to come there to conduct research in their specialties. In February a Kabul University professor joined the faculty of the Lenin Central Asian State University at Tashkent, and this spring four Tamil professors went to Moscow under Indian government sponsorship.

Needs of Foreign Policy

The opening of new Soviet diplomatic and consular posts as well as the increased number of economic survey, technical assistance and cultural delegations and missions has expanded Soviet requirements for Asian-African area specialists. The USSR is seeking to overcome a handicap of three decades when few Soviet nationals were allowed to travel or reside abroad. Soviet orientologists now are permitted contacts with "progressive" orientologists of other countries, and delegates have attended international conferences on eastern studies.

The Soviet press has reported that since January a number of secondary schools have been offering Arabic, Hindustani and Chinese along with related cultural subjects. It previously had reported that the teaching of oriental languages was being emphasized in Soviet graduate schools.

The USSR reportedly has placed an order with a British firm for printing machines equipped to cast and compose in various Asian languages, including Thai, Burmese, Vietnamese

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and seven Indian tongues. In January the establishment of a new Moscow publishing house for oriental studies was announced.

From 4 to 11 June the first All-Union Conference of Orientalists was held in Tashkent with specialists from various parts of the USSR and from both European and Asian Sino-Soviet bloc countries participating. N. A. Mukhitdinov, first secre-

tary of the central committee of the Communist Party of Uzbekistan, in a closing speech outlined "the great importance of the conference for the further elaboration of problems of the national liberation struggle" of the eastern countries and for the "exposing of imperialist intrigues in connection with the disintegration of the colonial system." (Concurred in by OSI)

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**PROSPECTS FOR CHILE'S ECONOMIC STABILIZATION PROGRAM**

Chile's economic stabilization program faces serious difficulties this year and its continued success is in doubt. The austerity aspects of the program are causing considerable political difficulties at a time when falling copper prices are saddling the government with a large fiscal deficit.

The present effort to cope with Chile's long-standing economic instability dates from mid-1955 when President Ibanez, who had been elected on an anti-inflation program in 1952, contracted the services of the American firm of economic and financial consultants, Klein-Saks. On the recommendation of the Klein-Saks mission, the Chilean government embarked on the present economic stabilization program, which calls for credit restrictions, strict price and wage controls, foreign exchange reform, extensive cutbacks in Chile's costly social security system, and new tax and antimonopoly legislation.

A number of these measures, particularly the wage and price controls, provoked intense political controversy and even an outbreak of rioting last April.

In spite of the running feud between Ibanez and Congress since his assumption of office, however, the government obtained the needed congressional approval and the program was under way by early 1956.

By early this year the rate of inflation had been greatly slowed and Chile appeared to be well on the way to achieving economic stability. The peso, which had dropped from 318 to 630 to the dollar in 1955, came up from 647 to 590 in 1956. Further evidence of success was seen in the loans and economic assistance granted by the International Bank for Reconstruction and Development (IBRD) for such long-term measures to strengthen the Chilean economy as modernization of the railroad system and expansion of the steel mills.

**Recent Difficulties**

The reversal of this promising outlook early this year stems principally from the steep fall in the price of copper, which normally accounts for more than half of Chile's exports and about half of the government's revenue. Copper's decline from its 1956 high of 46 cents per pound to its

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present 29-cent price hit the anti-inflation program at two of its most sensitive points by seriously reducing both foreign exchange and peso revenues. The expected foreign exchange shortfall in June alone amounted to \$12,000,000.

Loss of government revenues from copper sales has in addition created a fiscal deficit which, despite maximum efforts to trim the budget, will still amount to the equivalent of some \$33,000,000 this year. In the view of the Klein-Saks mission, the failure to reduce this budget deficit will increase costs which will break the line on wages and credit controls, thus jeopardizing and ultimately breaking down the free exchange system.

Another unexpected reversal is a great reduction in this year's agricultural output because of the worst drought in 70 years. The result will be higher prices to the consumer, and further foreign exchange losses because of additional food imports. In addition, farmers are seeking special credits for the next planting. Such credits would be inflationary, but if they are not granted, the resultant drop in food production would also be inflationary.

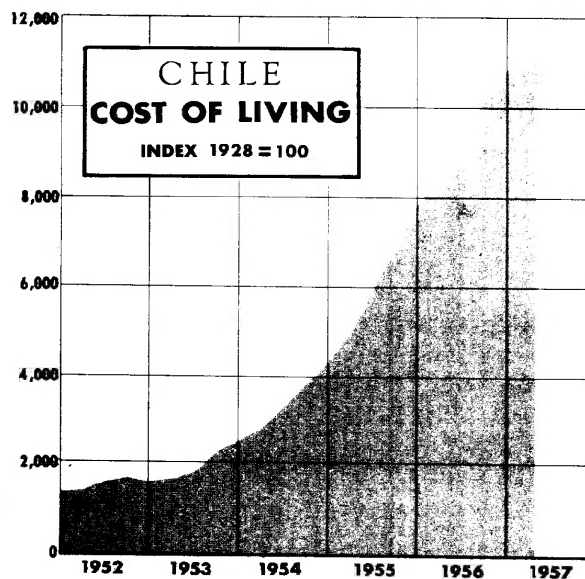
Still another recent misfortune are the damages sustained from the torrential storms of 17-21 May, said to be the worst in at least 50 years. The \$500,000 already granted as government relief will make cuts in the public works budget even more difficult, while the private loans granted for the same purpose will increase infla-

tionary pressures through credit expansion.

There have also been a number of signs that a potentially serious reduction in economic activity and increase in unemployment has been under way for some months past, particularly in the construction industry. The situation is not unusual for this stage of a rigorous anti-inflation program, but coupled with other economic difficulties, it has had a depressing effect on the population.

**Popular Discontent**

Over the past few months, there has been a general weariness with the semiausterity of the program. The lower classes in particular are increasingly restive over their loss of purchasing power. The April riots against the increases in urban bus fares, which resulted in the decreeing of a temporary state of siege, were not a protest against the stabilization program as a whole, but did point up the general atmosphere



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of discontent and forced a temporary abandonment of scheduled measures.

Ibanez has since chosen a course of greater caution in carrying out the anti-inflation program. For example, price increases in sugar, which were necessary in order for the government to shake off costly subsidy payments, were delayed until congressional approval of a bill raising the family allowances of white-collar workers was certain.

**Current Outlook**

Despite constant antagonism between Ibanez and the political parties in Congress, which are already maneuvering for positions in the 1958 presidential elections, the president has a congressional majority committed to the program. This commitment improved the chances for passage of the remaining legislative items on the stabilization agenda. A tax codification measure, one reforming the social security program, an antimonopoly law and a low cost housing bill

are all now before Congress or ready for submission.

The sweeping tax codification measure, drawn up with the assistance of United Nations tax experts, is expected to result in increased revenues, while the proposed social security bill would significantly diminish the mandatory welfare benefits which now eat up 25 percent of Chile's budget. The antimonopoly law is expected to induce price leveling through free competition, while the low cost housing bill is intended in part as a boost to the construction industry, hardest hit by the austerity program.

Even with the success of these domestic measures, however, the government would still be faced with a continuing budget deficit and a severe shortage of foreign exchange which it considers itself unable to remedy so long as the present low copper prices continue. It therefore sees a foreign loan as the only sure means of extricating the stabilization program from its present difficulties.

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